

June 16, 2003

Hon. Keith Richman
Assembly Member, 38th District
Room 5128, State Capitol
Sacramento, California 95814

Dear Assembly Member Richman:

This responds to your request that we estimate the impact of your proposed changes to the Assembly version of the budget on the state's fiscal outlook for 2003-04 through 2005-06. You also asked that we calculate (1) per-capita General Fund spending from 1998-99 through 2003-04 under your proposal, and (2) the number of state employees per 1,000 California population from 1998-99 through 2003-04, assuming that the full 10 percent in employee compensation savings you are proposing were achieved through reductions in the state's workforce.

Background

The Assembly budget (as passed by the Assembly Budget Committee on May 27, 2003) would achieve budgetary balance in 2003-04 through a variety of actions, including program savings, elimination of the Vehicle License Fee backfill, issuance of pension obligation bonds, realignment of certain programs to local governments, accounting changes, and the use of federal funds. The Assembly plan, like the May Revision, also assumes the issuance of a \$10.7 billion bond to pay off the accumulated 2002-03 deficit. The principal and interest on the bond would be secured by tax revenues until the bond is retired.

Under the Assembly version of the budget, both General Fund revenues and expenditures would be about \$71.9 billion in 2003-04, and the year would end with a reserve of \$49 million. In subsequent years, however, a large budget shortfall would re-emerge, with expenditures exceeding revenues by roughly \$9 billion each year in 2004-05 and 2005-06. The re-emergence of a shortfall is partly due to the expiration of a large amount of one-time savings, which fill the gap between revenues and expenditures in 2003-04.

Main Provisions of Your Alternative Proposal

Your proposal uses as a starting point the Assembly version of the budget and makes the following key changes:

- You reject the \$1.8 billion in new taxes included in the Assembly version to support the realignment of selected health and social services programs to counties. The responsibility for these programs shifts back to the General Fund, at an added cost of \$1.7 billion in 2003-04.
- You then include numerous *additional* savings that were not incorporated into the Assembly package. These changes, which are outlined in Enclosure 1, total \$5.5 billion in 2003-04, \$6 billion in 2004-05, and \$7.5 billion in 2005-06. The savings are related to such factors as reductions in Medi-Cal provider rates and Supplemental Security Income/State Supplementary Program grants, and program reductions in University of California, California State University, and the Department of Corrections. The proposal also includes a shift of Stage 2 child care from social services to Proposition 98 (with a commensurate reduction in K-14 education spending), a one-time reduction to local governments of \$500 million, the elimination of the Citizen Option for Public Safety program, and a three-year suspension of juvenile justice grants. You also assume issuance of a second tobacco securitization bond in 2005-06 (this issuance was suspended in the current year).
- Your plan also assumes that \$3 billion of the proposed \$10.7 billion deficit bond financing would not occur until 2004-05.

Fiscal Impact of Your Alternative Proposal

The impact of your proposal on the General Fund's bottom line is shown in Enclosure 2. It shows that the proposal, if fully adopted, would result in a positive reserve of \$793 million in 2003-04. It would also reduce the operating shortfall from \$8.6 billion to \$1.4 billion in 2004-05 and from \$9 billion to \$3.3 billion in 2005-06.

General Fund Spending Per Capita

You asked us to estimate General Fund spending, both in the aggregate and in per-capita terms, from 1998-99 through 2003-04. As shown in Enclosure 3, assuming that all of the savings in your plan are realized, total spending would be \$68.8 billion in 2003-04—an over-\$9 billion decline from the current year. It shows that, in per-capita terms, General Fund spending would be \$1,920 in 2003-04, up from the \$1,760 in 1998-99, but below the peak of \$2,293 in 2000-01. After adjusting for inflation, per-capita spending (in constant 2003-04 dollars) would be slightly below the 1998-99 level.

State Employment Per 1,000 Population

Finally, you asked us to estimate state employment per 1,000 of California's population from 1998-99 through 2003-04, assuming that all of the savings from a 10 percent cut in employee compensation were achieved through a reduction in the state's workforce. Enclosure 4 shows that this measure increased from 8.61 employees

per 1,000 population in 1998-99 to a peak of 9.29 employees per 1,000 in 2001-02. If the 10 percent savings were achieved through workforce reductions, the number of state workers per 1,000 population would fall to 8.50 in 2003-04. We note that the layoffs that would be necessary to achieve a 10 percent reduction in employee compensation would likely take more than one year to complete, so the full budgetary savings would not likely occur until 2004-05 at the earliest.

Should you have any questions about this information, please call me at 445-4656 or Brad Williams of my staff at 319-8306.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Enclosures

Enclosure 1

**Fiscal Effects of Canciamilla/Richman Savings Proposals
Relative to Assembly Version**
General Fund (In Millions)

	2003-04	2004-05	2005-06
Proposition 98			
Go to current-year minimum guarantee	\$162	\$84	\$87
Shift Teleconnect Fund transfer back to loan (thereby reducing maintenance factor repayment)	60	—	—
Shift of Stage 2 child care funding to Proposition 98 ^a	575	575	575
Shift of Developmental Services Early Start Program to Proposition 98	59	63	67
Higher Education			
Eliminate higher education outreach	\$138	\$138	\$138
UC/CSU fees (additional 10 percent each in out year)	—	96	200
UC Merced—eliminate funding	21	22	22
Increased CCC fees (\$26 per unit)	102	104	106
Raise Cal-Grant GPA requirement by one-third point	—	40	41
UC/CSU additional unallocated reduction	200	200	200
Health			
Assembly augmentation eliminated—trauma care funding	\$10	—	—
Exclude over-the-counter drugs from Medi-Cal	8	\$8	\$9
Establish long-term care provider fees	40	43	45
Eliminate specified optional benefits	23	33	36
10 percent General Fund provider rate reductions	405	572	606
Medi-Cal support enforcement program	55	58	61
Medi-Cal co-pay	31	33	35
Rescind continuous eligibility for children	58	175	193
Enroll new disabled Medi-Cal applicants in managed care	1	1	1
DDS purchase of service standards	50	101	101
Social Services			
Cap CWS caseworker costs	\$21	\$22	\$23
CWS—reduce visit frequency to quarterly	8	8	8
CalWORKs sanctions	10	10	10
Fingerprinting fee exemption repeal	3	3	3
Reduce SSI/SSP grants to MOE floor	497	677	691
CalWORKs—no COLAs for three years	—	81	155
IHSS—freeze state participation in higher wages	—	57	114
Rehabilitation—5 percent rate reduction and three year freeze	16	16	16
Aging program restorations eliminated	5	5	5
Child Support (revenue)—adopt Governor's 25 percent county share of penalty	53	53	53
Eliminate state-only human services (CAPI, CFAP, benefit payments for immigrants)	102	108	114
<i>Continued</i>			

	2003-04	2004-05	2005-06
Criminal Justice			
Eliminate rural county law enforcement grants	\$19	\$19	\$19
High-tech grants—eliminate redirections	16	16	16
Eliminate COP grants	116	116	116
Suspend juvenile justice grants—three years	116	116	116
Eliminate gang violence reduction program	2	2	2
Eliminate young men as fathers program	1	1	1
Merge Youth Authority parole within CDC	3	6	10
Further reduce number of substance abuse beds	10	10	10
Senate Actions:^b			
Parole reforms: pre-release and alternative sanctions	\$58	\$117	\$117
Restructure education programs	22	52	52
Increased trial court fees	50	50	50
Governor's Proposals			
Trial Court:			
Operations funding reductions	\$31	\$31	\$31
Court security flexibility	22	22	22
General Government			
Eliminate General Fund support for agency secretaries	\$7	\$7	\$7
Eliminate Arts Council	8	8	8
Eliminate General Fund support for California Science Center	13	13	13
Eliminate Fair Employment and Housing Department and Commission	15	15	15
Film California First—eliminate	6	6	6
Eliminate General Fund support for remaining trade agency programs	28	29	29
Eliminate OPR and Commission on Status of Women	5	5	5
FTB—increased reliance on call centers	1	1	1
Outsource California home page	3	3	3
Switch housing and community development projects to housing bond	81	—	—
Cesar Chavez Grants—Governor's proposal	5	5	5
Use Indian Gaming Special Distribution funds to offset General Fund costs	88	80	80
Pension Reform: new employees to Tier 2	1	6	8
Hold general obligation debt-issuance to \$3.5 billion annually	14	75	145
Increase employee compensation savings from 8 percent to 10 percent	118	121	124
Local Government			
One-time \$500 million reduction	\$500	—	—
Eliminate mandates (or suspend them for multiyear period)	—	\$564	\$596
Eliminate funding for booking fees	38	38	38
Transportation			
Increase net transfer to TIF	\$438	—	—
<i>Continued</i>			

	2003-04	2004-05	2005-06
Revenues			
Proceeds from sale of second tobacco securitization bond (net)	—	—	\$1,800
Teacher's Credit suspension—three years ^c	—	\$175	175
Eliminate exclusion for lottery winnings ^c	\$53	53	53
Controller—unclaimed property	5	6	6
Other			
Allocate remaining federal funds to offset program costs evenly between 2003-04 and 2004-05 ^d	\$720	\$720	—
Selected Conference Committee savings relative to Assembly version	150	150	\$150
Total Savings	\$5,476	\$6,023	\$7,543
<p>^a Approximately \$238 million could be absorbed within unappropriated portion of Proposition 98 guarantee. The balance would require reductions within K-14 education programs.</p> <p>^b Based on Senate estimates.</p> <p>^c If these options were adopted, it would be necessary to account for Proposition 98 interactions.</p> <p>^d Federal restrictions may limit timing flexibility of expenditures.</p>			

Enclosure 2**General Fund Condition Assuming
Canciamilla/Richman Budget Options***(In Millions)*

	2003-04	2004-05	2005-06
I. Assembly Budget (5/27/03)			
Beginning balance	\$1,520	\$1,451	-\$7,192
Revenues, loans, and transfers	71,861	73,038	77,477
Expenditures ^{a, b}	71,930 ^c	81,681	86,492
Operating balance (revenues minus expenditures)	-69	-8,643	-9,015
Ending balance	\$1,451 ^c	-\$7,192	-\$16,207
Encumbrances	1,402	1,402	1,402
Reserve	49 ^c	-8,594	-17,609
II. Adjustments to Assembly Budget			
Elimination of realignment savings	\$1,732	\$1,801	\$1,873
Canciamilla/Richman savings proposals	5,476	6,023	7,543
Account for \$3 billion of deficit bond proceeds in 2004-05	-3,000	3,000	—
Revised operating balance	\$675	-\$1,421	-\$3,345
Revised reserve	\$793	-\$628	-\$3,973

^a Assumes no expenditure for VLF backfill in budget year. Reflects savings of \$1billion from increased federal funds.

^b Out-year estimate reflects no new programs. Estimate of out-year effects of Assembly changes to current law.

^c Adjusted per DOF for basic aid double count and lower external borrowing costs.

Enclosure 3**General Fund Expenditures***1998-99 Through 2003-04*

	Total (Millions)	Current Dollars	Constant 2003-04 Dollars
1998-99	\$57,827	\$1,760	\$1,998
1999-00	66,494	1,990	2,175
2000-01	78,053	2,293	2,410
2001-02	76,752	2,212	2,298
2002-03	78,056	2,211	2,255
2003-04 ^a	68,735	1,920	1,920

^a Assumes all of the Canciamilla/Richman savings proposals are adopted and realized.

Enclosure 4**Number of State Employees***1998-99 Through 2003-04*

	Total State Employees	Employees per 1,000 Population
1998-99	282,860	8.61
1999-00	296,076	8.86
2000-01	311,239	9.14
2001-02	322,227	9.29
2002-03	327,354	9.27
2003-04 ^a	304,416	8.50

^a Assumes that the Canciamilla/Richman 10 percent employee compensation savings are realized through reductions in the state work force.